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IDAHO PUBLIC
UTILITIES COMMISSION

July 19, 2018

Diane Hanian, Secretary
Idaho Public Utilities Commission
Statehouse Mail
W. 472 Washington Street
Boise, Idaho 83720

RE: Joint Application of Hydro One Limited and Avista Corporation for Order Authorizing Proposed Transaction Docket Nos. AVU-E-17-09 and AVU-G-17-05 / Standard and Poors Update Released on July 18, 2018

Dear Ms. Hanian:

As promised in our July 18, 2018 letter regarding the recent developments involving Hydro One's CEO and board of directors, this letter provides a further update on events related to the changes to Hydro One's management.

Attachment A is an update from Standard and Poors, which (a) maintains the credit watch negative reflecting the potential for a one notch downgrade to Hydro One Limited's (HOL) current credit rating because of the Avista transaction, and (b) notes the possibility that HOL's governance structure could result in an additional one-notch downgrade, if it concludes that recent developments adversely affect management decision-making and fail to promote the interests of all stakeholders.

Sincerely,



Kevin J. Christie
Vice President, External Affairs and Chief Customer Officer
Avista Corporation



James Scarlett
Executive Vice President & Chief Legal Officer
Hydro One Limited

Attachments:

Attachment A: S&P Update of July 18, 2018

Cc: all parties

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 19th day of July, 2018, served the foregoing letter regarding an Update on Recent Events in the Merger Case Nos. AVU-E-17-09/AVU-G-17-05, upon the following parties, by sending a copy via electronic mail:

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Paul Kimball
Sr. Regulatory Analyst

Hydro One Ltd., Hydro One Inc. Ratings Remain On CreditWatch Negative Following CEO Exit And Board Resignation

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- Toronto-based Hydro One Ltd. (HOL) recently announced the retirement of its chief executive officer (CEO), effective immediately, and the resignation of its entire board of directors on or prior to Aug. 15, 2018.
- Our base case continues to reflect the likelihood that HOL's pending transaction with Avista Corp. will close.
- However, the CEO's departure and pending resignation of the entire board create uncertainty regarding the effectiveness of HOL's governance structure, particularly with respect to the influence on management decision-making and promoting the interests of all stakeholders.
- As a result, we are updating our CreditWatch negative placement on HOL and Hydro One Inc., to reflect the governance developments and the potential for up to a two-notch downgrade of both entities and their rated debt.
- The CreditWatch placement now incorporates the risk of a one-notch downgrade related to the Avista transaction closing, and the possibility that the company's governance structure could result in an additional downgrade. Overall, these distinct developments could collectively result in a two-notch downgrade from our current ratings on both entities and the rated debt.

TORONTO (S&P Global Ratings) July 18, 2018--S&P Global Ratings today stated that its 'A' ratings on Toronto-based Hydro One Ltd. (HOL) and Hydro One Inc.

Hydro One Ltd., Hydro One Inc. Ratings Remain On CreditWatch Negative Following CEO Exit And Board Resignation

(HOI) remain on CreditWatch with negative implications, where they were placed June 15, 2018.

The CreditWatch placement on HOL and HOI continues to reflect the likelihood of a one-notch downgrade to both companies because of the Avista transaction. This reflects the extent of the regulatory settlements and approvals thus far, supporting our expectation that the pending transaction with Avista will close. In addition, the CreditWatch now incorporates the possibility that HOL's governance structure could result in an additional one-notch downgrade, if we conclude that recent developments adversely affect management decision-making and fail to promote the interests of all stakeholders. Overall, these distinct developments could collectively result in a two-notch downgrade from our current credit ratings on both entities.

We will resolve the CreditWatch when the transaction with Avista closes, and after our review of the company's governance structure, including our evaluation of its effectiveness in promoting the interests of all stakeholders.

RELATED CRITERIA

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further

Hydro One Ltd., Hydro One Inc. Ratings Remain On Credit Watch Negative Following CEO Exit And Board Resignation

information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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